

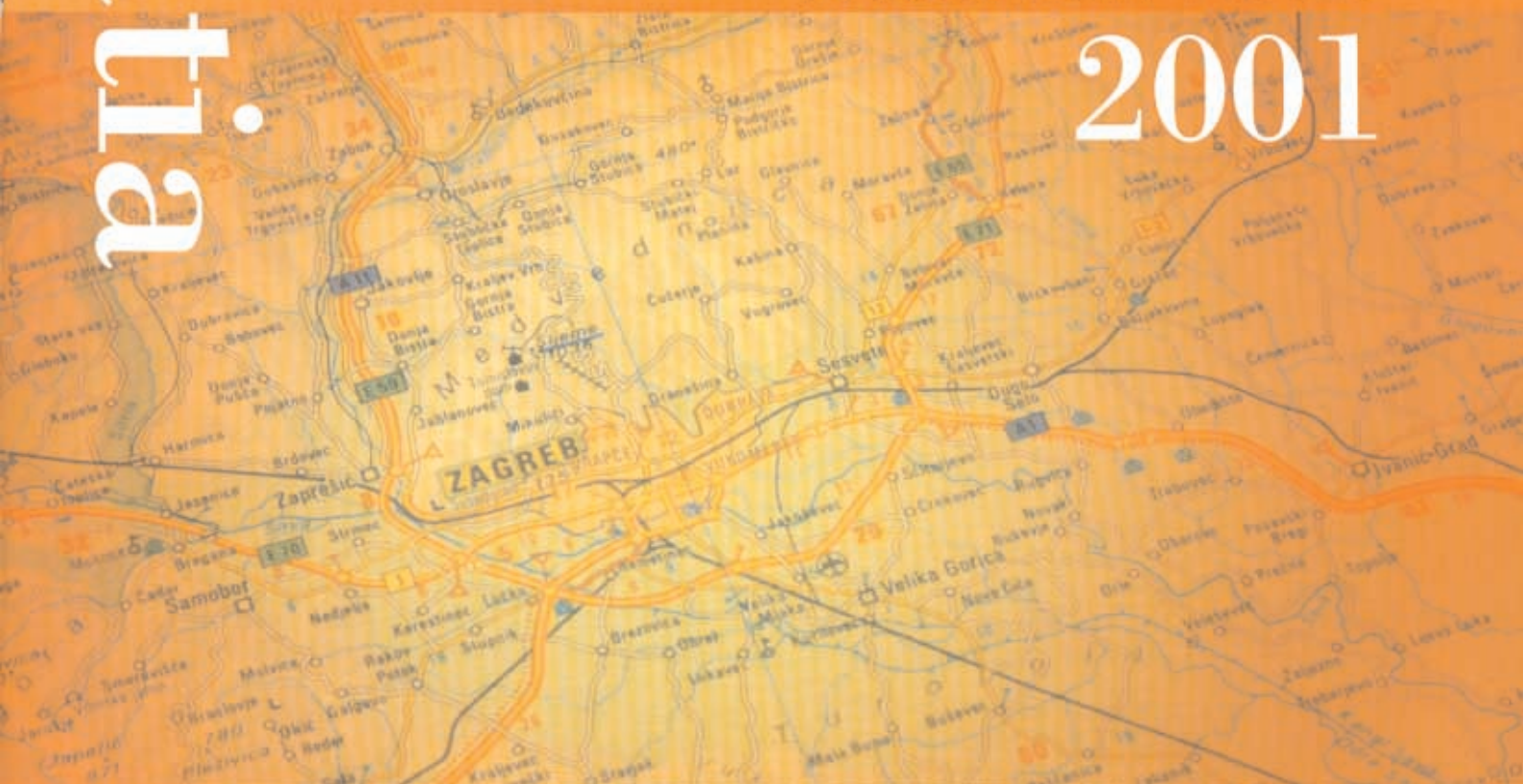
Croatia



BUSINESS FORUM
LONDON 22-24 APRIL 2001

Investment Profile

2001



Held on the occasion of the
EBRD ANNUAL MEETING





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Introduction



Following the political changes that took place at the beginning of 2000, Croatia embarked on the road of key political and economic changes. Important steps were taken towards improving the investment climate, progressing with privatisation, and enhancing fiscal sustainability through a Stand-by Agreement reached with the IMF. The democratic and pluralistic nature of the political institutions were reinforced. The country also restarted co-operation with and integration into Euro-Atlantic structures: in 2000, it became a member of WTO, joined NATO's Partnership for Peace Programme, and began discussions with the EU on a Stabilisation and Association Agreement.

Political and economic transition

After the dissolution of the Socialist Federal Republic of Yugoslavia (SFRY), Croatia was internationally recognised in January 1992. In the period between 1991 and 2000, the country was led by the Croatian Democratic Union (HDZ) with Franjo Tudjman as the President. Under these years, the country suffered from war, economic hardships created by costs of reconstruction and accommodation of displaced persons and refugees.

The start of 2000 brought in a major political change. Following the death of President Franjo Tudjman, the elections that took place in January 2000, brought to power a broad coalition of pro-reform parties, leaving the Croatian Democratic Union (HDZ) in opposition. The government was formed by six parties with major roles played by the Social Democratic Party (SDP) and the Croatian Social Liberal Party (HSLs). The current Prime Minister is the SDP leader Ivica Račan.

The new government won the elections on a platform of economic reform and integration with the EU, and in its first year it has accomplished significant political achievements at home and abroad. At home it has carried out a programme of constitutional changes enhancing the role of the Parliament and curtailing the extensive powers enjoyed by the president. Other changes have included measures aimed at strengthening the independence of the courts, and the rights of the minorities. The government also took steps to secure the freedom of the media, by introducing reforms of state broadcaster HRT, which had a long record of bias towards the HDZ, and designing new legislation to protect the independence of HRT from political interference.

In terms of economic policy, the government started the implementation of painful, but necessary measures to further economic transition. The main objectives are to reduce the size of the government, achieve macroeconomic stabilisation, increase the rate of employment by accelerating growth, impose hard budget constraints on loss-making enterprises,

restructure the enterprise sector, accelerate privatisation, facilitate foreign investment, and introduce Croatia into international economic structures.

Challenges met, challenges ahead

In the last five years, Croatia has been successful in achieving price and exchange rate stability through both tight fiscal and monetary policy. However, in more recent years, the fiscal balance has deteriorated, becoming a major source of risk to stability. In 2001, the government took some effective measures to curtail fiscal expenditures and reduce the fiscal deficit. Largely following the advice of the IMF within the context of negotiating a SDR 200 million Stand-by Agreement, the government has made pledges to reduce public sector wages and employment and made a commitment to pension and health sector reforms. (See *Economic summary* below.)

The Croatian enterprise sector has been undergoing a difficult transition. However, some companies have undertaken major restructuring and were able to increase productivity and find new markets. For example, Victor Lenac (shipbuilding), Pliva (pharmaceuticals) and Podravka (food processing) have increased their profitability and registered impressive growth in sales both in domestic and export markets. However, the disruption caused by the war, the loss of traditional Yugoslav export markets, and the structural problems led to a decline of some traditional sectors, such as base metals, textiles, beverages and food. Tourism, which directly accounts for 3.4 per cent of GDP, delivered a record performance in 2000 and has the potential for continued growth in the future. In recent years, many Croatian enterprises started to expand in the former Yugoslav markets. (See *Major sectors of the economy* below.)

To date, there has been little FDI in Croatia, but there are indications that the investment climate has been gradually improving in 2000, as evidenced by higher inflows of direct investments compared to the last two years. The bulk of FDI so far was connected to privatisation deals, with the largest

deal being the sale of Hrvatske Telekomunikacije to Deutsche Telekom in 1999. With the improvement of the general economic climate in Croatia and the return of stability to the region, greenfield investments are expected to pick up in the future. In 2000, the government has unveiled strategies for the re-organisation and eventual privatisation of the state oil and gas concern, INA, and the electricity utility, HEP. (See *Investment climate* below.)

Consolidation of the Croatian financial sector has made important progress in the last few years. Bankruptcy procedures have been initiated against 12 banks and four savings banks. In addition, banking consolidation has been taking place through mergers and acquisitions. There is now foreign participation in seven banks, six of which are Croatia's largest banks, which has increased liquidity and significantly increased competition on the market. An inflow of foreign players into the insurance market has intensified competition in this sector as well. (See *Financial sector* below.)

International relations

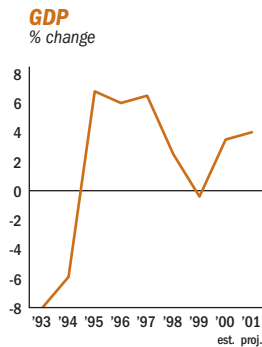
The new government has succeeded in normalising Croatia's foreign relations and ending the country's international isolation. The EU and the United States have welcomed the constructive foreign policy adopted by the new government and its enhanced co-operation with the International Tribunal on War Crimes in Former Yugoslavia at The Hague. With progress

in implementing reconstruction programmes, Croatia has been able to proceed with its commitment to the right of return of all refugees and displaced persons and the protection of their rights. Therefore, the return of the Croatian Serbs, who had left Croatia in the wartime 1991-95 period, has been accelerated. In May, Croatia joined NATO's Partnership for Peace Programme and in November it was received into the WTO.

Discussions with the EU on a Stabilisation and Association Agreement (SAA) opened in November 2000. The SAA is intended to form a precursor to beginning full negotiations on EU accession, and gives Croatia an opportunity to determine its readiness for membership and allows the Union to identify areas where assistance can be provided. Croatia is expected to finalise negotiations by the summer of 2001. The most difficult area for negotiations will be trade liberalisation, as the two sides must agree on a timeframe by which, they will remove barriers to imported products. Also in November, Croatia co-hosted an EU summit on south-eastern Europe in Zagreb. Croatia is also a member of the Stability Pact for South-Eastern Europe. The Pact supports countries of the region including Croatia in their efforts to foster peace, democracy, respect for human rights and economic prosperity. Croatia is also to benefit from projects, mainly in the infrastructure sector, that are funded by international financial institutions under the umbrella of the Stability Pact.



Economic summary



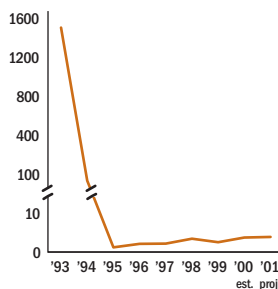
Croatia's economy is estimated to have grown by 3.5 per cent in 2000 based on good export performance and tourism growth. The country's prime economic concerns are budgetary imbalances and slow structural changes in the enterprise sector. However, the agreement in principal with the IMF on a Stand-by facility and the adoption of a tighter budget for the year 2001, revised at the request of the IMF, have significantly improved the prospects for achieving long-term sustainability. The Croatian economic climate is also likely to benefit from the revitalised privatisation process and an expected increase in FDI inflows in 2001.

GDP growth

After experiencing a slight recession in 1998 and 1999, a solid economic recovery began in 2000, when the economy grew by 3.5 per cent. Impetus for the growth came from tourism, which was quick to recover from the impact of the Kosovo war, and also from growing industrial production driven by export demand from EU markets.

GDP growth is projected to reach 4 per cent in 2001. The expected slowdown in the EU export markets and the capping of fiscal expenditures required by the IMF are the factors that will restrict growth. Increased foreign direct investment and the continuing good performance of the tourism sector are expected to partly offset the slowdown in demand.

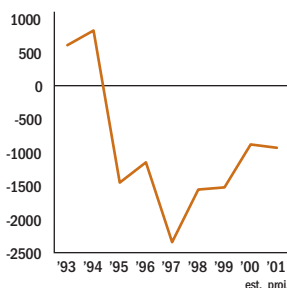
Consumer prices
Annual average, % change



Inflation

In the last few years, inflation has been gradually declining as a result of tight monetary policy pursued by Croatia. However, in 2000, a minor one-off rise in the inflation rate was registered as annual average retail prices increased by 6.2 per cent as opposed to 4.2 per cent in 1999. A combination of rising oil prices, increases in excise duty and electricity prices are responsible for the change. For 2001, inflation is likely to decelerate as oil prices will ease and cuts to tariffs required by Croatia's accession to the WTO will reduce the cost of imported goods.

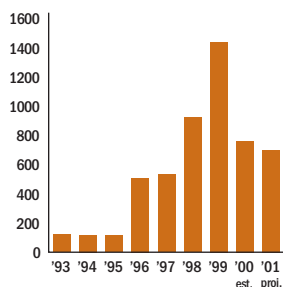
Current account
US\$ millions



Current account

Croatia's current account deficit peaked in 1997, due to a trade deficit of more than US\$ 5 billion. Subsequently, the current account deficit showed a downward trend, and narrowed from US\$ 1,523 million in 1999 to US\$ 880 million in 2000. Recovering tourism revenues and good export performance boosted by robust growth in the EU economies are the underlying reasons for the improving current account balance.

Total FDI
US\$ millions, cash receipts, net



Source: Ministry of Finance of the Republic of Croatia, January 2001

The country's external position is expected to remain relatively unchanged in 2001, when a US\$ 930 million deficit is forecasted. The tourism sector is expected to register steady growth, with receipts forecast to reach US\$ 3.2 billion. Trade performance is also expected to improve on the basis of reciprocal trade concessions with the EU in the framework of an Association Agreement due to be signed in 2001. However, this will be partly offset by domestic consumer and investment spending as economic growth picks up.

FDI and privatisation

In Croatia, FDI has been favourable in comparison with other peer countries. However, there are indications that the investment climate has been gradually improving, as evidenced by higher inflows of direct investments not associated with privatisation. A majority of FDI until recently,

has been related to large privatisation deals and in coming years, the Croatian government intends to accelerate the privatisation process by offering a large number of state-owned shares in the telecom, energy, insurance, banking, tourism, shipbuilding and transport sectors. The record year in terms of net FDI inflows so far was 1999, when US\$ 850 million was received for the sale of Hrvatske Telekomunikacije. The net FDI receipts dropped in 2000 and are forecasted to increase significantly in 2001. Greenfield investments are also expected to pick up due to the current upswing in the economic cycle, the recovery in tourism and increased political stability. The country is also expected to sign an Association Agreement with the EU, which will increase the attractiveness of Croatia for foreign investors. (See *Investment climate* below.)

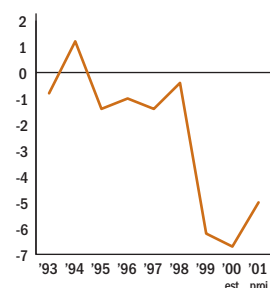
Government balance

The fiscal deficit deteriorated sharply in the last two years from 0.4 per cent of GDP in 1998 to 6.2 per cent in 1999 and 6.7 per cent in 2000. Increased expenditures in public sector wage rises are the main reasons for the deterioration. However, important progress has been made in the clearance of government arrears. Pension liabilities have been clarified and payments to insured depositors in the bankrupt banks were made. Accordingly, total arrears in the economy declined from the peak of HRK 26 billion at the end of 1999 (20 per cent of GDP) to below HRK 20.2 billion (12.8 per cent of GDP) by the end of 2000.

In order to secure the IMF Stand-by Agreement, the government has significantly revised its budget proposal, reducing the planned expenditures by US\$ 296 million. The revised budget forecasts a deficit of 5.3 per cent of GDP for 2001. Keeping public sector wage rises at bay will be one of the most important challenges for the government in achieving the fiscal deficit target. The majority of the financing of the deficit is planned by privatisation receipts, with the bulk of the proceeds likely to come from Hrvatske Telekomunikacije.

General government balance

% of GDP



Source: Ministry of Finance of the Republic of Croatia, January 2001

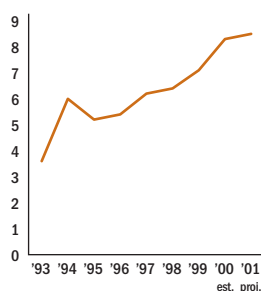
Selected economic indicators

	1993	1994	1995	1996	1997	1998	1999	2000. est.	2001 proj.
GDP (% change)	-8.0	5.9	6.8	6.0	6.5	2.5	0.4	3.5	4.0
Consumer prices (annual average % change)	1,518	97.6	2.0	3.5	3.6	5.7	4.2	6.2	6.3
Current account (in US\$ millions)	606	826	-1,451	-1,148	-2,343	-1,550	-1,523	-880	-930
General government balance (% of GDP)	-0.8	1.2	-1.4	-1.0	-1.4	-0.4	-6.2	-6.7	-5.3
Trade balance (in US\$ millions)	-742	-1,172	-3,267	-3,690	-5,224	-4,169	-3,302	-3,357	-3,616
Total FDI (in US\$ millions, cash receipts, net)	120	117	114	509	533	923	1,439	760	700
External debt stock (US\$ millions)	2,638	3,020	3,809	5,308	7,452	9,588	9,764	10,200	10,500
Unemployment (% of labour force)	14.8	14.5	14.5	10.0	9.9	11.4	13.6	na	na
Exchange rate, annual average, kuna per US\$	3.6	6.0	5.2	5.4	6.2	6.4	7.1	8.3	8.5
Gross reserves, excluding gold (end-year, US\$ millions)	616	1,405	1,895	2,314	2,539	2,816	3,025	3,337	na

Source: Ministry of Finance of the Republic of Croatia, January 2001

Exchange rate

Annual average, kuna per US\$



Source: Ministry of Finance of the Republic of Croatia, January 2001

Exchange rate

Since the introduction of a new currency (the kuna, HRK) in 1994, the monetary policy targeted exchange rate stability through a managed float regime. The objective of exchange rate stability has become more attainable with the steady accumulation of international reserves, which stood at more than 250 per cent of the monetary base at the end of 2000.

IMF Stand-by Agreement

As the cornerstone of its commitment to promoting employment and raising the population's standard of living while maintaining macroeconomic stability, the Croatian government and the IMF reached a preliminary agreement on the signing of a Stand-by arrangement for SDR 200 million, which confirms the merits of the government's economic policies. The Stand-by Agreement will be precautionary and the government does not plan to access the available funds. Croatia hopes to raise financing for its 2001 budget under more favourable terms from private investors. The agreement was made possible by the passing of a budget with a smaller fiscal deficit than in the previous year and by reducing the overall wage bill in the administration and state-owned companies by 10 per cent. The IMF also called for the long-term reform of the pension and health funds and for measures targeting restructuring and privatisation in the enterprise sector.

Credit ratings**Standard & Poor's sovereign ratings, February 2001**

Local Currency			Foreign currency		
Long-term	Outlook	Short-term	Long-term	Outlook	Short-term
BBB+	Stable	A-2	BBB-	Stable	A-3

Moody's country ceilings for foreign currency ratings, January 2001

Bonds and notes		Bank deposits	
Long-term	Short-term	Long-term	Short-term
Baa3	P-3	Ba1	NP

Fitch IBCA foreign currency sovereign ratings, January 2001

Long term	Short term
BB+	B

Investment climate



The level of foreign direct investment in Croatia is favourable in comparison to other countries in the region. The new government has been moving decisively to encourage FDI. As a result FDI inflows jumped sharply in 1999-2000, mainly due to large privatisation deals. With the improvement of the general economic climate in Croatia and the return of stability to the region, greenfield investments are expected to pick up in the near future.

Foreign direct investment

The cornerstone of Croatia's new economic reform programme is liberalisation of the foreign investment environment. The new government, understanding that FDI can contribute to restructuring efforts, improvement of competitiveness and job creation, is determined to increase FDI levels and has taken concrete steps to enhance Croatia's attractiveness to foreign investors. In 2000, the following measures were taken to improve the investment environment: introduction of investment incentive legislation, reduction of payroll and corporate taxes, revision of the privatisation framework, and the drafting of plans for the liberalisation of the telecommunications and energy sectors.

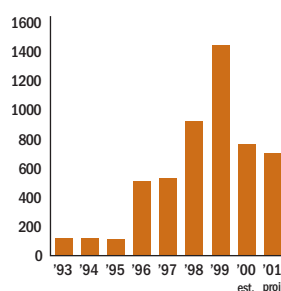
FDI inflows reached an unprecedented high in 1999 (US\$ 1,439 million) when they received a one-off boost with the privatisation of Hrvatske Telekomunikacije (HT), and continued to be relatively high in 2000 as well (US\$ 750 million).

Despite the recent success in attracting FDI, Croatia still ranks among the middle group with respect to cumulative per capita FDI inflows, as compared to other advanced transition economies. In the past, foreign investment was deterred by regional instability and the unwelcoming attitude of the previous regime towards foreign businesses.

In 2000, FDI was particularly boosted by the proceeds of the privatisation of three banks: Rijecka Banka, Splitska Banka and Privredna Banka Zagreb. The latter deal alone accounted for inflow of € 300 million. Forthcoming privatisations will create the most immediate opportunities in the banking, insurance, energy, and telecommunications sectors. (See *Privatisation* below.)

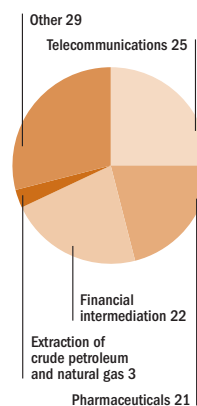
FDI has mostly been concentrated in large privatisation deals in previous years. The largest foreign investment to date was the purchase in 1999 by Deutsche Telekom of a 35 per cent stake in Hrvatske Telekomunikacije (HT) for US\$ 850 million. Other

Total FDI
US\$ millions, cash receipts, net

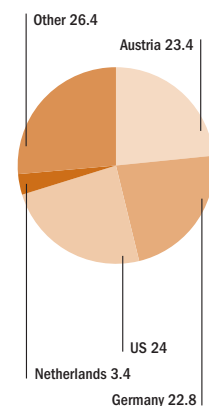


Source: Ministry of Finance of the Republic of Croatia, January 2001

Foreign direct investment by sector
1993-2000 Q3, per cent



Foreign direct investment by origin
1993-June 2000, per cent



Source: Croatian Chamber of Economy

major deals involved two issues of shares in Pliva, the largest pharmaceuticals company, in 1996 and 1998, which may be regarded as FDI rather than portfolio investment, because the shares were distributed in the form of depository receipts.

The sectors that have proven most popular with foreign investors include telecommunications, the cement industry, gas exploration and distribution, pharmaceuticals, food and drinks, and tourism. The leading countries from which FDI has originated are the USA, Germany, Austria, Italy and the Netherlands.

Top foreign investors

Company	Country	Sector	Size of investment US\$m
Deutsche Telekom	Germany	Telecommunications	850.00
Pliva d.d	USA	Pharmaceutical	731.32
Privredna Banka Zagreb	Italy	Finance	297.00
Siemens	Germany	Electronics	130.19
Zagrebacka Banka	USA	Finance	81.36
Ina-Agip d.o.o.	Italy	Petrochemical	75.08
Coca Cola Beverages	Australia, Netherlands	Soft-drinks bottling	55.52
Dalmacijacement	UK	Cement	48.01
Ciglane Bedekovcina	Austria	Construction	46.74

Source: Croatian Chamber of Commerce

Investment policy and incentives

In 2000, the government took important steps to improve the business environment for foreign investors, such as introducing generous investment incentives, updating its legal regime on intellectual property rights to WTO standards, and reducing corporate and payroll taxes (See *Taxation and social security* below).

New investment incentive legislation was approved in July 2000. The minimum investment needed to qualify is HRK 4 million (€ 512,000), and investments must meet one or more criteria such as introducing new production processes and creating jobs. Real estate will be sold or leased on favourable terms, while job creation will be rewarded by one-off payments of HRK 15,000 (€ 1,900) for each new job, on condition that the number of newly employed people does not fall for three years. In addition, up to 50 per cent of vocational or re-training costs may be refunded. The law also offers reduced corporate tax within the following categories:

- 7 per cent corporate tax for 10 years for companies that invest HRK 10 million (€ 1.3 million) and create 30 new jobs;
- 3 per cent corporate tax for 10 years for companies that invest HRK 20 million (€ 2.6 million) and create 50 new jobs; and

- 0 per cent corporate tax for 10 years for companies that invest HRK 60 million (€ 7.8 million) and create 75 new jobs.

The full text of the law is available in English on the Croatian National Bank's web site at www.hnb.hr/propisi/epropisi.htm

Croatia has 12 **free zones**. Companies located in such zones may engage in manufacturing, wholesale trade, foreign trade and provisions of foreign services. Goods that are not intended for trade on the domestic market or for consumption in Croatia are fully exempt from customs duties or taxes. Users engaged or participating in infrastructure construction within the free trade zone, in projects with a value exceeding HRK 1 million (€ 130,000), are exempt from paying any profit taxes during the first five years of business activities. Other users in the zone pay a profit tax equal to 50 per cent of the standard rate.

There are no capital controls on the repatriation of profits. Some controls are in place on capital-account transactions, but not on current accounts. The Foreign Exchange Law permits foreigners to open hard currency accounts and to make external payments.

The Law on property permits acquisition/ownership by foreigners (subject to approval from the Ministry of Foreign

Free zones in Croatia

Location (county)	Name	Concession granted	No. of users	No. of employees	Current investments, DEM millions
Zagreb	Free zone Zagreb	25 Sept 1997	155	20	0
Krapino-Zagorska	Krapinsko-zagorska free zone	24 Apr 1997	23	130	3.5
Primorsko-goranska	Port of Rijeka free zone	19 June 1997	7	430	0
	Free zone Kukuljanovo	22 May 1997	3	na	0
Zadar	Free zone Obrovac	24 July 1998	2	32	1.8
Osijek-Baranja	Free zone Osijek	12 May 1997	27	169	10.0
Sibenik-Knin	Free zone Podi	22 May 1997	0	1	0
Split-Dalmatia	Port of Split free zone	10 Dec 1998	28	241	3.0
	Splitsko-Dalmatinska free zone	22 July 1999	2	165	5.0
Istria	Port of Pula free zone	11 March 1999	8	488	9.7
	Buje free zone	26 July 2000	10	185	2.7
Dubrovnik-Neretva	Port of Ploce free zone	9 Dec 1999	132	1,200	12.0
Total:			397	3,061	47.7

Source: Ministry of Finance

Affairs and the Ministry of Justice) except in certain geographically designated areas due to national security concerns. According to the same law a foreign investor, incorporated as a Croatian legal entity, is allowed to acquire/own property without restriction.

In preparation for joining the WTO, Croatia enacted fundamental changes to its intellectual property regime in 1999. New TRIPs-compliant copyright legislation took effect in July 1999, with laws on trademarks, patents, industrial designs, geographical indications and integrated circuit layouts coming into force six months later.

Privatisation

Croatian privatisation had a slow start in the early 1990s, when assets were sold mostly with the participation of domestic investors. In the second wave, the voucher privatisation implemented in 1998 accelerated the divestiture of residual stakes held by the Privatisation Fund, but still left significant assets in state hands.

However, the current government has begun a serious effort to accelerate the privatisation of state-owned assets and to close down loss-making enterprises. In total, 850 state-owned companies are due to be privatised. The Privatisation Fund hopes to bring the entire process to a close and expects to raise some € 7.5 billion in revenues. A key project is the further privatisation of Hrvatske Telekomunikacije (Croatian Telecom), scheduled for 2001, in which Deutsche Telekom acquired a 35 per cent stake in 1999. (See *Major sectors of the economy: Telecommunications* below.) Other major privatisations to follow are in the shipbuilding, tourism, electronics and energy sectors. Stakes in INA, which has a monopoly in gas distribution and which also engages in oil exploration, refining and distribution, Janaf, the Adriatic pipeline operator, electrical company Koncar, and national power utility HEP, will be offered for sale (see *Major sectors of the economy: Energy* below).

In the banking sector, two state-owned enterprises remain to be privatised: Dubrovacka Banka and Croatia Banka. Foreign participation in the sector is very high, as among the top 10 banks, which control over 83 per cent of the total banking assets, all but Dubrovacka Banka have foreign strategic partners. The privatisation of the largest insurance company, Croatia Osiguranje is also planned for 2001. (See *Financial sector* below.)

Taxation and social security

In 2001, the government introduced important adjustments to the tax system in a bid to reduce the costs of doing business in Croatia. Most importantly, corporate tax was cut to a 20 per cent standard rate, making Croatia very competitive in comparison with other countries in the region. Health and pension contributions paid by employers on their employees behalf were reduced. Pension insurance contributions have been reduced from 10.75 per cent to 8.75 per cent, while health insurance contributions have fallen from 9 per cent to 7 per cent. Changes were introduced to the income tax regime, as the previously existing two rates of income tax were increased to three (15 per cent, 25 per cent and 35 per cent). Earlier plans to cut the VAT from 22 per cent to 19 per cent have been abandoned for the time being, after the government decided that it could not afford the revenue loss. In addition to the taxes mentioned above, there is an excise duty on tobacco products, alcoholic and non-alcoholic beverages, coffee, beer, petroleum derivatives, certain transportation vehicles and luxury products. Finally, real estate transfer tax and local taxes also apply. Croatia is also implementing major reforms to its pension system. A "three-pillar" pension system was approved by the parliament in 1998 (Pillar I – the pay-as-you-go state system; Pillar II – contributions to private funds; Pillar III – voluntary contributions to private funds). However, the introduction of a privately managed compulsory tier has been delayed until January 2002, primarily due to the short-term impact on the government budget, and the voluntary third pillar will begin on 1 July 2001. The pension reforms are expected to have a broad impact on the economy, namely on capital markets, government finances and labour markets.

Markets and trade

The EU countries are Croatia's main trading partners, with Italy and Germany in the lead, followed by Slovenia and Bosnia and Herzegovina, with substantial export volume flows into western Herzegovina, a region of Bosnia and Herzegovina that is closely economically integrated into Croatia. In recent years, there has also been an increase in imports from other transition countries, especially from Hungary and the Czech Republic.

The main articles of Croatian exports are shipbuilding, chemicals, pharmaceuticals, food products, base metals, building materials, textiles and clothing.

In July 2000, the WTO general council approved the entry of Croatia, which has committed to reduce agricultural and industrial protection. Agreed measures include reductions in rates of duty and increases in tariff rate quotas for beef, pork, wheat, sugar and chocolate by 2005. For most industrial products, the maximum tariff rates will be 10 per cent or less by the end of the transition period. These reductions will be phased in over the period to 2005, although some were introduced immediately upon Croatia's accession to the WTO in November 2000. However, duties on textiles will only be reduced to 14 per cent. Croatia has committed to liberalise fixed-line telecommunications services from 2003. In 2000, Croatia also started negotiating a Stabilisation and Association Agreement (SAA) with the EU, which, once signed, will initiate the liberalisation of trade between the two sides. In autumn 2000 the EU agreed to alter the General System of Preferences for the western Balkan states, lifting tariffs for 95 per cent of goods, meaning almost entirely duty-free export to the EU. The country is in the process of becoming a member of CEFTA (Central European Free Trade Agreement), whose members are Bulgaria, the Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia.

Exports by country

Country	Exports, US\$ '000	%
Italy	974.630	22.20
Germany	627.177	14.29
Slovenia	475.908	10.84
Austria	288.801	6.58
Russia	56.616	1.29
Bosnia and Herzegovina	492.424	11.22
France	125.223	2.85
USA	84.066	1.91
UK	75.899	1.73
Hungary	59.707	1.36
Other countries	1,129.635	25.73
Total	4,390.086	100.00

Imports by country

Country	Imports, US\$ '000	%
Italy	1,347.116	17.03
Germany	1,293.022	16.34
Slovenia	625.770	7.91
Austria	527.753	6.67
Russia	670.553	8.48
Bosnia and Herzegovina	81.505	1.03
France	435.888	5.51
USA	238.098	3.01
UK	179.517	2.27
Hungary	183.657	2.32
Total	2,328.280	29.43
Total	7,911.159	100.00

Source: State Statistics Bureau, Republic of Croatia

Major sectors of the economy



The Croatian enterprise sector has been undergoing a difficult transition, however, many sectors managed to avoid or overcome crises. Some large enterprises, (e.g. Victor Lenac (shipbuilding), Pliva (pharmaceuticals), and Podravka (food industry)) managed to restructure successfully and increase sales. However, the disruption caused by the war, the loss of traditional Yugoslav export markets, and structural problems led to a decline of some traditional sectors, such as base metals, textiles, beverages and food. Tourism, which accounts for 3.4 per cent of GDP, delivered a record performance in 2000. In recent years, many Croatian enterprises have started to expand in Yugoslav markets.

Shipbuilding

The restructuring and privatisation of the shipbuilding industry, which is a major concern of the government, started to gain momentum in 2000. The sector represents immense potential. In the 1980s Croatia was the world's third largest shipbuilder, but since then the sector has declined substantially. The industry was privatised through voucher sales in the early 1990s, but the majority of shares are still owned by various state controlled privatisation funds. Limited restructuring efforts in the mid 1990s did not bring positive results, as the industry stayed dependent on state support and benefits from various guarantees and direct subsidies.

In September 2000, the government adopted stabilising measures for five shipbuilding yards, concentrating on five of the six yards operated under Hrvatska Brodogradnja-Jadranbrod (HBJ), a state-owned umbrella company. The five yards are as follows: Uljanik (in Pula), 3 Maj and Kraljevica (both near Rijeka), and, Brodotrogir and Brodosplit (both in central Dalmatia). All these yards currently have significant indebtedness. Some have a negative net worth and on average operate at only 50 per cent of capacity. The rehabilitation programme aims to lead to successful privatisation by the end of 2001. A total of HRK 4.2 billion will be invested by 2003, including HRK 1.5 billion (€ 192 million) in subsidies for the industry over the next three years. Secondly, budgetary claims worth HRK 490 million (€ 62 million) for 1999 have been written off. The plan entails a 10 per cent subsidy on every order, an amount that is now customary in Europe, given the intensity of competition from the Far East. Fortunately, the stabilisation process coincides with an expected loss of competitive pressure from west European yards, as an EU ban on shipbuilding subsidies will come into force in 2001. This window of opportunity could provide additional manoeuvring room for restructuring the yards and reducing their debts.

Currently, Victor Lenac (VL), the single privately owned Croatian yard, is the only profitable firm in the industry, and good proof

of the capability of Croatian shipbuilding. Analysts attribute the company's remarkable success to its sound management and its specialisation in custom-building ships to order. VL was privatised in 1992 and has been floated on the Zagreb Stock Exchange. Its present shareholders include the Dutch company Beleggingsmaatschappij Ella III, Italian shipping company Motiron Shipping Corporation, Raiffeisenbank Austria and the IFC. Besides traditional low-margin ship repair, where competition with lower-cost countries is intense, much of the yard's profit comes from building offshore installations, mainly for oil and gas companies, and from conducting complex ship conversions. Around 95 per cent of the yard's revenues come from foreign markets. The international contracts are largely generated by a co-operation agreement with the ThyssenKrupp group (Germany), whose portfolio includes two German shipyards. In 2000, the main shareholders invested US\$ 58 million into new production facilities.

Besides state managed restructuring, there have also been recent signs of market-driven concentration in the industry, as three yards, all located in the Rijeka region, signed a co-operation agreement. VL, 3 May and Kraljevica agreed to co-operate on procurement, sales, organisation of quality assurance systems and workforce training. The deal is likely to be a first step towards a merger, as VL has expressed interest in participating in the upcoming privatisation of the two other yards.

Telecommunications

Progress in the reconstruction and expansion of telecoms infrastructure has recently accelerated. The state-owned monopoly, Hrvatske Telekomunikacije (Croatian Telecom, or HT), is moving towards further privatisation, and plans to liberalise the market are under way. The government is currently preparing amendments to the 1999 Law on telecommunications to introduce competition in the fixed network and remove HT's monopoly on fixed telephony from the beginning of 2003.

HT is still the monopoly owner of the network and provider of fixed-line telephone services. In October 1999, 35 per cent of the shares were sold to Deutsche Telecom. The second phase of HT's privatisation will be undertaken in the spring of 2001 through domestic and international share flotation.

During the 1990s, HT carried out thorough modernisation and expansion of its network. It installed an extensive optical-cable network with state-of-the-art main digital switches and international connections, as well as the capacity for 2.2 million fixed lines. Telephone line density in the fixed network is 35 lines per 100 citizens, comparatively high by east European standards.

There are two GSM service providers in Croatia. Cronet, a fully owned subsidiary of Croatian Telecom, for a long time was the only operator, but in July 1999 the second system, VIP-NET, was launched. VIP-NET is a consortium of Mobicom (Austria), Western Wireless (USA) and local Croatian partners. VIP-NET's activities were helped by a € 22.4 million loan provided by the EBRD in 1999. The financing was used to fund capital expenditure, working capital requirements, and operating and financing costs. Through energetic marketing, VIP-NET has managed to increase its customer base rapidly. Cronet had 340,000 and VIP-NET 150,000 users in the second half of 2000.

Competition on the market is likely to increase, as authorities have announced the upcoming sale of a third GSM concession in 2001. Croatia has not yet moved toward third-generation mobile services such as UMTS, but in the near future such developments are expected to happen.

Internet

The Croatian internet sector, a tiny market by global standards, expanded rapidly in 2000, as foreign companies entered. There are an estimated 200,000 internet users, roughly 5 per cent of the population. The majority are private users, but the number of business customers is growing as well. There has also been a large increase in the amount of e-commerce conducted.

HINET, a subsidiary of HT, controls more than 65 per cent of the market, and the rest is carved up between several smaller Internet Service Providers (ISP). Iskon and Globalnet are the second and the third largest private services, both of which received an important boost in 2000, when foreign investors bought controlling stakes in them. Private US firm Adriatic Net Partners acquired Iskon, while the

Croatia Capital Fund, an international venture fund, gained a majority stake in Globalnet.

In late 2000, VIP-Net, a mobile telephone operator which had already successfully challenged HT on the mobile phone market, entered the ISP market. Considering VIP-Net's financial and technical potential, its presence is certain to challenge HT's dominant position.

Currently, there are some regulatory constraints on ISPs' ability to grow. For example, the Telecommunications Law in its current form prevents ISPs from establishing an independent international gateway. However, there is pressure upon the government to accelerate the introduction of competition into this sector.

Pharmaceuticals

Pliva is the largest pharmaceutical company in Croatia, and in terms of sales, the largest in central and eastern Europe. Since April 1996, Pliva's shares have been listed on the London Stock Exchange, a first for a central and east European manufacturing company.

Healthcare is central to Pliva and the company produces a wide range of quality pharmaceuticals, animal health and agrochemical products. Pliva also produces a range of food and beverage items and a line of cosmetics and personal hygiene products.

In November 2000, Pliva signed a credit facility agreement with the EBRD and the IFC, the total of which amounted to US\$ 85 million. The loan will be used for the construction and equipment of Pliva's new research institute in Zagreb, which is expected to be operational by the end of 2002. The new research institute should significantly increase Pliva's capacity in research and development, improving its efficiency in the discovery of new chemical entities as well as the development of generic drugs.

In December 2000 Pliva acquired Pharmascience UK Ltd., 100 per cent owner of Dominion Pharma Ltd. Dominion markets a mix of speciality branded products, together with a growing range of generics, for both primary and secondary care. The speciality product range mainly comprises products in the urological, ophthalmological and dermatological areas. The company seeks to grow through the development, licensing-in and acquisition of both speciality and selected generic products, and its value lies in its pipeline of new product agreements and direct access to important UK and other west European markets.

Energy

Reform of the integrated electric power monopoly has made progress in 2000. The new government plans to accelerate market liberalisation of the electricity sector including the privatisation of Hrvatska Elektroprivreda (Croatian Energy, or HEP). It is developing a new energy law defining the company's restructuring and privatisation plan. The bill proposes the unbundling of HEP's main activities by creating three separate divisions: transmission, generation, and regional distribution. Following thorough restructuring, the privatisation process is not likely to start before 2002, although, some power stations might be sold sooner.

The planned restructuring is designed to resolve internal problems such as overstaffing, technical losses in transmission and commercial losses resulting from clients' failure to pay. The government's commitment to energy sector liberalisation was also shown by an increase in electricity prices in October 2000 to more realistic rates, shifting some of the cost burden from industry, and the state budget, to the public.

Since the beginning of 2000, when HEP stopped utilising electric power from the Krsko nuclear plant in neighbouring Slovenia, where Croatia has a 50 per cent stake, hydroelectric power has accounted for around 60 per cent of HEP's generation capacity. Hydroelectric plants are located primarily along the Adriatic coastline (Senj, Obrovac, Zakucac), and near the Slovenian-Hungarian border (Varazdin). Croatia also has three oil-fired plants (Zagreb, Sisak, and Urinj) and several smaller gas and coal-fired plants that account for about 40 per cent of the country's total electricity generation.

Oil and gas

The principal player in the oil and gas sector is INA, an integrated state-owned company that covers a whole series of activities. It has a monopoly in gas distribution, operates the country's two largest refineries at Rijeka and Sisak and conducts exploration activities in Croatia as well as abroad. Around two-thirds of the country's crude oil consumption comes from fields operated by INA, in Angola, Egypt and Russia. INA also supplies around one-third of Croatia's gas consumption, the balance being imported from Russia. New offshore gas fields are being developed with ENI of Italy, through a joint venture. A new field off the coast of Istria entered production in 1999 and will initially supply gas via Italy through a new pipeline. INA also has a 38 per cent stake in

the Adriatic oil pipeline known as Janaf, which runs from the oil terminal at Omisalj on the island of Krk and is linked to pipeline networks in Hungary and Slovakia. INA also runs a network of around 400 petrol stations.

In 2000, the government revealed plans to privatise INA in 2002. However, the choice of method of restructuring and sell-off is still under debate and the final structure is likely to be decided in late 2001.

INA has a policy of co-operating with other oil companies in the region, such as MOL (Hungary), Energopetrol (Romania) and OMV (Austria). Merger plans with MOL, the largest Hungarian oil and gas company, were negotiated in 1999, but were taken off the agenda, though INA's management has stressed that a partnership between the two firms would be desirable in the long run. (MOL has been expanding northwards instead, acquiring a stake in Slovakia's largest oil company, Slovnaft.) INA also has strong potential to act as a major export player in the states of the former Yugoslavia, which used to be the company's natural markets. It started regaining ground as soon as the situation in the region began to normalise. The company's Sisak oil refinery began delivering oil products to buyers in neighbouring Yugoslavia in October 2000, only a few weeks after the international embargo was ended.

Croatia is also reinforcing its role as a transit country for gas and oil. In October 2000, Jadranski Naftovod (JANAF), a Croatian oil transportation firm, signed an agreement with Yukos (Russia) to modernise and connect Croatia's Adria pipeline with Yukos's Druzhba pipeline that feeds into central Europe. Once the project is completed it will enable Yukos to transport oil to the Croatian port of Omisalj, where it could then be loaded onto tankers.

Tourism

Croatia's major attraction is its Adriatic coastline that boasts numerous islands, a warm Mediterranean climate, several well-equipped popular resorts as well as sites of historical and cultural significance. Opportunities for nautical tourism are excellent, as the country has 41 marinas with all the necessary accompanying facilities at its disposal. The country also has many medicinal, mineral and thermal springs and as well as natural parks situated in attractive mountains.

Croatia's once highly developed tourism industry registered impressive growth in 2000, with the highest number of visitors since independence in 1991, an achievement that has

Largest number of overnight stays		
Origin of visitor	Overnight stays (million)	Increase from 1999, %
Germany	7.4	68
Slovenia	5.2	16
Czech Republic	4.6	61
Italy	4.5	72

Source: HINA Croatian News Agency

generated ambitious plans for the upgrading and modernisation of hotels and other infrastructure in the coming years.

In 2000, overnight stays increased by 45 per cent year on year. Income from tourism in 2000 increased by some 9 per cent over 1999, and is worth some US\$ 2.8 billion, returning tourism to its place as one of Croatia's most important industries. It accounts for around 5.5 per cent of employment and contributes high foreign-currency revenue. However, the sector is still operating far below its pre-war level: in the 1980s, the tourist industry contributed an annual US\$ 4-5 billion to the country's GDP.

In the 1980s, primarily west European tourists visited the country, but in the last decade it has become more popular with east European tourists while the number of western visitors has fallen. There has also been a change in the regional allocation of visitors, with southern Dalmatia registering much stronger growth relative to 1999 than Istria and Kvarner Bay in the northern part of the country, though the northern regions accounted for nearly 70 per cent of total overnight stays.

The main development plans under way include the financial rehabilitation and restructuring of tourist companies, rescheduling of hotels' debts, a privatisation policy for government-held shares in tourist facilities, and incentives for world-class hotel chains to enter Croatia. Several hotels came up for sale in 2000 through the rehabilitation of Dubrovacka Banka. Two Dubrovnik hotels are listed on the Zagreb Stock Exchange, with more to follow. With the upgrading of services, the sector hopes to move towards the higher end of the market. It is also believed that the zero VAT rate for organised visits from abroad, in force in 2001, will give a further boost to the sector.

A recent large-scale foreign investment was announced in October 2000 by the Hilton (US) hotel chain, which is to rebuild the Imperial Hotel in Dubrovnik.

In 1996, the EBRD provided a sovereign-backed credit line of DM 50 million to the Croatian Bank for Reconstruction and Development to help revive the country's tourism sector. The proceeds have been used to repair and upgrade hotels and other tourist facilities.

Transport

Transportation is a priority policy area for the government in view of the need for new regional and international transport links to support economic restructuring and changing trade patterns. Pan-European Transport Corridors V and X cross the country.

Roads

The key element of the road development programme is motorway construction. Croatia's motorway density is one-third of the EU average, but still higher than in neighbouring countries. The draft Motorway Programme proposes building about 330 kilometres of motorways in the short and medium term, and an additional 1,200 kilometres of motorways/expressways by 2013. Priority is being given to the following three routes: Gorican-Zagreb-Rijeka (linking central Europe with the Adriatic), Macelj-Zagreb-Belgrade (linking western Europe with the Balkans), Zagreb-Dubrovnik (via Zadar-Sibenik-Split; an important route for tourist traffic along the coast). The EBRD has committed significant financing to the modernisation of Croatia's transport infrastructure. In 1995, it provided a DM 70.9 loan million to complete the major road between Zagreb and the Adriatic coast as well as to carry out road improvement works on high priority roads.

A number of transport projects are to be financed under the umbrella of the Stability Pact, including the construction of a 23-kilometre section of the North-South Road Corridor (part of Pan-European Corridor V) from Breznicki Hum to Varazdin, at a total cost of € 100 million for which financing has been requested from the EIB as one of the Pact's "quick start" projects. Medium term road projects include the construction of two sections on the Northwest-Southeast Road Corridor, and a 115-kilometre motorway section on the North-South Road Corridor.

Railways

Croatia is also working to bring the railway sector in line with the current demands of the economy. Assistance from IFIs has been used towards the modernisation of Hrvatske Željeznice (HZ), the state railway company. In 1998, the EBRD provided

a loan of € 32.7 million that was used to help the formulation and implementation of HZ's commercialisation strategy and to finance its most urgent investment needs. In 1998, a € 85.4 million loan from the World Bank was also secured. The aim of the restructuring is to modernise and restructure HZ in order to decrease its debts and make it competitive. The restructuring project will be the first step in a full commercialisation and privatisation process.

Within the Stability Pact's "quick start" package, electrification and resignalling of the North-South Railway Corridor is planned with financing of € 122 million from the EIB. The mid-term projects include upgrading of the North-South and the Northeast-Southwest Railway Corridor.

Sea transport

Maritime communications are an important mode of transport for Croatia, with its long coastline and large shipping fleet. Both cargo and passenger services declined in the mid-1990s, largely due to wartime disruption, but have started a gradual comeback in the last two years. The revival of the tourism sector and planned development of transport links with central Europe will strengthen the positive growth trends.

Rijeka port development

Rijeka, the country's largest port, was in the past a rail, road, air and maritime centre, and the key trading link for central Europe and the western Balkans. The port has lost more than half of its traffic in the 1990s, but plans are under way to re-establish Rijeka as central Europe's leading port. The planned upgrade of port facilities and railway and road links will greatly help to attract cargo from and for the landlocked countries of central Europe.

In 2000, a Croatian-Hungarian strategic partnership took shape aimed at rehabilitating Rijeka port with the active participation of private companies. Ganz Port Rijeka, a consortium of Hungarian and Croatian companies, plans to develop and partly operate Rijeka port in cooperation with the Croatian authorities under a concession agreement for the construction of a new soya terminal. Hungarian steel company Ganz Acel Rt has a 51 per cent share in Ganz Port Rijeka, while the remaining stake is held by Luka Rijeka, the firm that currently operates the port. The consortium plans to invest US\$ 70-80 million in the construction of two large silos, deploying six new cranes and renovating 43 existing cranes.

Rijeka port has two free trade zones, the second of which opened in 2000 and will include a timber processing plant and cattle and general cargo transshipment terminals.

Foreign retail groups in Croatia

Name	Country of origin	Facilities
Segro	Austria	Three stores in Zagreb
Billa	Austria	Two supermarkets in Zagreb 10 more planned in 2000
Mercatone	Italy	1 giant shopping mall in Zagreb 2 more to open in 2000
Mercator	Slovenia	One hypermarket is planned.
Drogerie markt	Germany-Austria	25 outlets all over the country
Marks & Spencer	UK	1 department store in Zagreb opened in May 2000
Leclerc	France	Plans to open three food super and hypermarkets

Source: Reuters

Retail

Croatia has been experiencing a large retail boom in the last few years, as had happened earlier in neighbouring Slovenia and Hungary. A large number of foreign retailers have entered, attracted by high margins, the result of little existing competition, and the western-style consumer habits of Croatian customers that developed in the 1980s, as Croatsians were permitted to travel freely even in communist times. The increasing competition is challenging the previous dominance of the two largest Croatian retail groups, Konzum (owned by the Agrokor food conglomerate) and Getro. This has stimulated the local retail market by encouraging Croatian citizens to shop at home rather than abroad.

Agriculture and food processing

Agriculture is a significant component of the Croatian economy, accounting for about 10 per cent of Croatia's GDP, while the food processing industry covers an estimated 7 per cent. Croatian agricultural production is characterised by three distinct agro-ecological regions. There are cultivated lowland regions, primarily used for growing cereals and sugarbeet, mountainous regions where pasture predominates and coastal areas, where viticulture, fruit and olive production are prominent. Fishing and fish processing has traditionally been important activities along the Adriatic coast. The sector was severely disrupted by the war, but production started to recover from 1998 onwards, although it is still lower than in the pre-war years.

Unlike in most other formerly communist countries, farmers in Croatia were able to retain private ownership of land. Therefore,

private farms constitute the core of the agricultural sector in Croatia, covering 80 per cent of arable land. A specific problem of the sector is that the farms are generally small in size.

Croatia's accession to the WTO in autumn 2000 was an important development for agriculture, as it has resulted in a reduction of trade barriers, and thus an increase in foreign competition in the sector. In addition, following the EU's agreement to lift tariffs for the western Balkan countries, asymmetrical trade concessions came into force on 1 November 2000. Both developments will increase foreign competition for domestic agricultural producers, but will also facilitate exports.

Food processing is a highly concentrated sector in Croatia, with a few large companies accounting for most of the production. The major export products are biscuits and wafers, chocolate, meat, canned fish, soups, seasoning, olive oil, cigarettes and wine. One of the largest and most successful companies is Podravka. Its best known products are packaged soups and spices. With the help of EBRD financing in the form of a DEM 53 million loan, Podravka recently finished the construction of a new factory in Koprivnica to produce the Vegeta seasoning mix that is a market leader in many east European countries. The company has also opened a new plant in Poland, its largest export market, located in the Kostrzynsko-Slubicka free economic zone, near the German-Polish border. The rationale for the investment was that by producing locally Podravka can avoid heavy customs and tax levies on its products in Poland and will also gain access to EU markets once Poland achieves EU membership.

Case study: Agrokor food company

In November 2000, the EBRD announced a € 170 million syndicated loan to Agrokor, the largest food company in Croatia. This is the largest investment of its kind in a Croatian company, consisting of € 70 million on the EBRD's own account and € 90 million from local and foreign commercial lenders. A further € 10 million is expected to be syndicated to support future regional initiatives by the company. Agrokor is primarily a branded foods conglomerate, with leading market shares in Croatia and Bosnia and Herzegovina in mineral water, ice cream, frozen foods, edible oil products in addition to its strong base as Croatia's largest food retailer.

The proceeds of the loan will enable Agrokor to refinance and restructure its existing debt and also to modernise certain production and distribution facilities. This will allow the company to develop its two-fold strategy, which consists of building upon its leading position in the domestic markets, and aiming to become a leading regional player in the countries of former Yugoslavia, where its products enjoy strong brand recognition.

Financing Agrokor in its development plans is expected to have a strong demonstration effect for companies active in the Croatian food market. Agrokor has been a positive example in Croatia of corporate transition to international business practice in, for example, financial transparency and brands development as well as environmental/health & safety norms. The loan is also expected to raise the profile of Croatian corporates in the international debt markets, increasing the potential of other Croatian corporates to acquire long-term financing.

An important function of the project is to contribute to economic reintegration in the Balkans, which is a necessity both for political stability and economic development. Companies in south-eastern Europe generally suffer from operating in a small domestic market, therefore cross-border expansion is absolutely vital for them to compete in the medium term.

Financial sector



Consolidation of the Croatian banking sector made decisive progress in 2000. The privatisation of the banks that were taken into rehabilitation between 1996 and 1998 has almost been completed. There is now foreign participation in seven banks, of which six are Croatia's largest banks, which has increased liquidity and created a competitive banking market. Consolidation of the banking system, which is still overcrowded, has been further helped by mergers and acquisitions in 2000. An inflow of foreign players into the insurance market has intensified competition in this sector as well.

Banking sector

The Croatian National Bank (HNB) is the country's central monetary authority. It was set up in 1991 and the central bank act of 1992 made it an independent institution. Croatia is in the process of bringing its legislation on the central bank in line with EU requirements. A first step was taken in October 2000, when the HNB initiated a change in the provisions of Croatia's Constitution on the central bank as a prerequisite for a new act on the central bank.

At the beginning of 2001, the banking sector consisted of 44 commercial banks, including eight foreign banks. The system is still considered overbanked. However, the 10 largest banks have a combined market share of some 80 per cent. Two commercial banks dominate the market, Zagrebacka Banka and Privredna Banka Zagreb. Zagrebacka Banka is the largest retail bank and has a market share of around 30 per cent. Zagrebacka survived the two banking crises that hit Croatia in the 1990s and managed to restructure without government help, becoming one of the country's most successful companies. It internationalised its shareholder base in 1996 through an initial public offering and is currently listed on the London Stock Exchange. Zagrebacka also aims to establish itself as a regional banking champion. It already gained a presence in Bosnia and Herzegovina through its acquisition of Hrvatska Banka Mostar and Universal Banka Sarajevo, and is looking to form partnerships in neighbouring countries.

The second largest bank, Privredna Banka Zagreb (PBZ), is owned by Banca Commerciale Italiana. It has a large retail branch network and an advanced treasury and capital markets division.

Banking consolidation

The consolidation of the banking sector has taken place through restructuring, privatisation, and recently mergers, with considerable success over the past few years. The first wave of banking rehabilitation started in 1994, following the adoption of the Law on Bank Rehabilitation. Four banks participated in the scheme.

The first bank to enter was Slavonska Banka d.d., which was privatised in 1999 when a 66.68 per cent stake was sold to Kartner Landes-und Hypothekenbank of Austria and the EBRD. Two other banks, Rijecka Banka (the fourth largest bank) and Splitska Banka (the third largest), were sold to Germany's Bayerisches Landesbank and Italy's UniCredito respectively in the first half of 2000. Finally, the second largest bank, PBZ, was privatised when Banca Commerciale Italiana bought a 66 per cent stake in a deal that was finalised in January 2000.

With the expansion of its powers under the new banking law (in effect since December 1998), the central bank has overseen a second wave of bank consolidation. During the past two years, bankruptcy procedures have been initiated against 11 banks and temporary commissioners have been put in charge of three others. Most were small regional banks overexposed to local economies and often dependent on the tourism sector. In addition, in early 2000 the central bank placed two small banks, Istarska Banka and Cibala, under temporary administration. While Cibala is now undergoing bankruptcy procedures, the state has recapitalised and privatised Istarska Banka.

At the end of 2000, foreign investors controlled over 83.2 per cent of the total banking assets. The first wave of foreign banks entered the market in the early 1990s. Some, such as BNP-Dresdner, took a niche in high-quality corporate businesses, while others, such as Bank Austria and Raiffeisen Bank Austria, engaged in extensive brand building and developing retail as well as corporate businesses. However, it was the recent privatisations of large Croatian banks that introduced large-scale foreign involvement to the sector. In addition to the sell-off of three large banks that participated in the rehabilitation scheme, a regional bank, Dalmatinska Banka, was also sold recently. In November 2000, Reginter, a local subsidiary of Cayman Islands-based investment fund Regent Europe, took 65 per cent of Dalmatinska, which is the tenth largest bank in the country with estimated assets of US\$ 258 million. Three banks have yet to be privatised in 2001, Dubrovacka Banka, Hrvatska Postanska Banka and Croatia Banka. The increasing foreign involvement in the sector is likely to lead to further recapitalisation and modernisation of the banking system.

In 2000, the process of bank consolidation through mergers and acquisitions also gained momentum. In April 2000, Zagrebacka Banka bought Varazdinska Banka, the seventh largest bank in which EBRD has a stake of 9.2 per cent, and in July 2000 ZABA-Pomorska Banka d.d. Split. Privredna Banka d.d. Zagreb acquired Krapinsko-Zagorska Banka d.d. in July 2000 and the bank also owns 64 per cent of Riadria Banka d.d. Rijeka as well as 88.67 per cent of regular and 82.89 per cent of preferred shares of Medimurska Banka d.d. Cakovec. Erste Group of Austria added to its initial investment in Bjelovarska Banka with the acquisition of Trgovacka Banka and Cakovecka Banka. Erste Group has finalised the merger of these three banks.

Non-bank financial institutions

Stock exchange

In terms of market capitalisation, trading volume and liquidity, the capital markets are small. Trading on the Zagreb Stock Exchange (ZSE) is highly concentrated with two shares, Zagrebacka Banka and pharmaceutical company Pliva, accounting for 75 per cent of turnover. Market capitalisation has been among the lowest of the advanced transition countries.

The ZSE opened in 1992. Turnover grew rapidly in 1996 and 1997 as Croatia's investment grade international credit ratings brought increased international investor interest in the country. However, growth was interrupted by the financial crisis in Russia in 1998 and the Kosovo conflict in spring 1999, which resulted in a sharp drop in share prices.

CROBEX is the official ZSE share index. The 10 most liquid common shares are included on the index.

The ZSE has two market segments with different reporting requirements. Companies which meet more stringent accounting and reporting standards are listed on Quotation I. This list, which contains such companies as Pliva, Zagrebacka Banka, Varazdinska Banka and Viktor Lenac, is recognised by the London Stock Exchange. The rest of the listed companies are traded on the less rigorous TN Quotation.

The leading brokerage company is ZB Brokers, the capital market subsidiary of Zagrebacka Banka. It is responsible for around 50 per cent of the total equity trading turnover on the ZSE.

In 2000, the CROBEX registered a considerable increase from around 600 to around 900 by the end of the year. Concerning

future forecasts, the capital markets are expected to be given a further boost by the introduction of pension reform including the establishment of fully funded mandatory pensions. Such a move could raise demand for domestic bonds and shares. The introduction of a private voluntary tier (the "third" pillar) is set for 1 July 2001.

Varazdin Over-the-Counter Market

The Varazdin OTC was founded in 1993 as an order-driven type of stock exchange (OTC). In 1997 brokerage houses became shareholders and today there are 35 active brokerage houses who are shareholders with an equal number of shares. The Varazdin OTC market lists all seven privatisation funds and 503 companies and organises auctions to sell shares from the Croatian Privatisation Fund portfolio. 2000 was the most successful year to date in terms of turnover, which amounted to HRK 498 million (approximately US\$ 59 million), with market capitalisation of traded securities amounting to HRK 6.8 million (approximately US\$ 809 million).

Zagreb Money and Short-term Securities Market

The Zagreb Money and Short-term Securities Market started operating in 1990. It is an independent joint-stock company owned by 27 shareholders (25 banks and two insurance companies). The scope of activities comprises: organising the trading of money (both domestic and foreign currency), organising the trading of short-term securities, and supplying information on market conditions. The major participants on the money market in Croatia are 42 banks and 15 savings banks, insurance companies, funds and other financial institutions. Currently, the Zagreb Money Market has about 60 active participants, while the majority of transactions relate to depository institutions. In 2000, the Zagreb Money Market effected 10,513 transactions totalling HRK 54.05 billion (€ 6.9 billion), of which 4.57 billion (€ 585 million) relate to daily trading and 49 HRK 48 billion (€ 6.3 billion) to overnight trading.

Croatian Central Depository Agency

The Croatian Central Depository Agency (CCDA) was created in April 1997. The mandate established for the CCDA is to operate as the Croatian central registry/depository for all forms of securities and to contribute to the competitiveness of the capital markets by providing efficient and effective electronic clearing, settlement and depository services. At present the number of depository accounts amounts to 300,000 (domestic/foreign, individuals/companies). The number of securities amounts to 192 with a total market value of HRK 35 billion (approximately US\$ 4.2 billion).

Insurance

The Croatian insurance market has been developing rapidly over the past few years as western insurance companies have started competing with local entities. The sector is still dominated, although to a decreasing extent, by Croatia Osiguranje, the former monopoly, which claimed 55 per cent of the country's premiums in 1999. The government plans to offer its 77.5 per cent holding in the company for sale to a strategic investor in 2001.

The largest foreign participant in the insurance market is Allianz AG (Germany), which established Allianz Zagreb in 1998, after buying a majority stake in Adriatic Osiguranje, then the country's fifth largest insurer, from Zagrebacka Banka. Since then the two institutions have been co-operating closely in the insurance business and in the field of asset management, and in 2000 launched a new pension fund business. Allianz also holds a stake in Zagrebacka Banka that was raised from 6 to 10 per cent in July 2000. Allianz Zagreb's portfolio was at first dominated by car insurance, but the sales of shares of life, corporate property and accident insurance have been growing rapidly.

Another foreign insurance company present in Croatia is Grazer Wechselseitige Versicherung/GraWE (Austria), one of the first entrants since it bought into Prima Osiguranje in 1990. Prima Osiguranje, now 98 per cent controlled by the Austrian company, recently changed its name to GraWE Hrvatska. GraWE Austria has continued to expand, acquiring smaller Slavonija and Adria Osiguranje in summer 2000.

EBRD investment in the insurance sector

The EBRD has made important steps in promoting the development of non-bank financial institutions by investing in a pension fund and an insurance company. In January 2000, it took a 20 per cent equity stake in insurance company Austrija Osiguranje, recently established by the Austrian company UNIQA Versicherungen AG. UNIQA is the second largest Austrian insurance company and has extensive involvement in central and eastern Europe with subsidiaries in the Czech Republic, Slovakia and most recently Croatia. The Croatian deal is the second project between UNIQA and the EBRD, as the EBRD has been a minority shareholder in UNIQA's Czech insurance business, Ceska Rakouska Pojistovna, since the beginning of 1999.

The EBRD's involvement is to strengthen the firm's capital base and is likely to support the insurer's expansion in the market. Austrija Osiguranje offers a range of life and non-life products to individuals and corporate clients.



EBRD activities in Croatia

As at 31 December 2000, the European Bank for Reconstruction and Development (EBRD) had signed 39 projects in Croatia, committing € 713.4 million towards projects with a total cost of € 2,161.4 million. Of the 39 investments, 32 were in the private sector, while the remaining seven were public sector projects.

Overview of EBRD activities and key objectives

The Bank was an early investor in Croatia. It supported war damage reconstruction and has helped move the country forward towards the market economy by supporting foreign direct investment, privatisation, financial sector restructuring and infrastructure development. The new government's reform agenda provided renewed impetus to the Bank's activities in Croatia, particularly in the enterprise and infrastructure areas. The Bank's volume of investments will be sensitive to improvements in the quality of the investment climate.

The Bank is focusing on the following operational objectives in the coming years with priority being given to the infrastructure and enterprise sectors:

Infrastructure, municipal and environmental projects are continuing to be at the core of the Bank's activities in Croatia in terms of project volumes, with specific attention to projects with a regional dimension. Specific initiatives include:

- supporting the commercialisation and corporatisation of state- and municipally-owned utilities and service organisations and promoting private sector participation;
- provision of non-sovereign financing for municipal waste water, solid waste, power and transport projects; and
- enhancing co-operation with other IFI's and donors in developing an appropriate institutional framework for the functioning of a competitive utilities market.

The Bank is seeking to significantly step-up its funding of corporate sector investment. Current activities focus on:

- support to privatisation including the provision of pre-privatisation and post-privatisation finance involving equity transactions;
- support for dynamic companies prepared to address corporate governance issues;
- support for companies that seek to expand across borders; and
- support for further privatisation and competition in telecommunications and for the restructuring and growth of the tourism sector.

In the light of the relatively high level of development of the banking sector and near completion of the bank privatisation process, the Bank's financial sector activities are likely to increasingly focus on non-bank institutions and SME finance delivery channels. Principal objectives in this area will be:

- promoting the establishment and development of institutions such as leasing companies, retail mortgage and consumer finance institutions, insurance companies and private pension funds;
- promoting a broad range of financing structure and products such as fixed-income securities, asset-backed securities, mortgage financing and leasing services, through underwriting, partial guarantees or other innovative financing instruments;
- supporting SME's through dedicated credit lines, investment and venture capital funds, as well as co-financing structures with other IFI's and donors. Opportunities to both consolidate existing channels and develop additional ones will be sought; and
- supporting consolidation of the banking sector.

Signed projects as at 31 December 2000

Agribusiness

Panonska Pivovara

In January 1996 the EBRD Board of Directors approved an investment of DM 33 million in Panonska Pivovara to enable it to maintain operations at its existing brewery and to construct a new brewery in Koprivnica in the northern part of Croatia. The subsequent increase in production capacity will allow the company to satisfy the large unfulfilled demand for local high-quality beer. The project also has significant environmental benefits.

Podravka Food Processing Industry, Croatia's leading food company, the Danish Investment Fund for Central and Eastern Europe and Carlsberg A/S (Denmark) own 40 per cent, 20 per cent and 40 per cent respectively of Panonska Pivovara, which brews Carlsberg's Tuborg beer. Under this transaction, all three shareholders will inject equity to increase the company's capital from US\$ 10.6 million to US\$ 32.2 million.

Podravka – equity investment

In July 1998 the EBRD finalised an agreement with Podravka, a major food manufacturing company, to subscribe to the equivalent of DM 50 million (€ 25.4 million) of convertible preference shares of Podravka. The EBRD will, upon conversion, hold about 10 per cent of Podravka's share capital. Podravka will use the proceeds from the EBRD's investment to finance the construction of a new plant in Koprivnica, as part of a capital expenditure plan totalling DM 300 million (€ 152.4 million). The plant will produce Vegeta, a food seasoning, which is a market leader in many countries of central and eastern Europe.

Agrokor

In November 2000, the EBRD approved a loan of € 70 million to Agrokor, Croatia's largest food company with key operations in ice cream, mineral water and edible oil. The loan will help Agrokor to refinance and restructure its existing mix of short-term and long-term debt so that it can initiate a strategy to develop its core business and expand into nearby countries. This loan, together with an additional € 90 million being provided by local and foreign commercial lenders, represents the largest investment of its kind in a Croatian company to date.

Banking and finance

Zagrebacka Banka dd – credit line and IT loan

Zagrebacka Banka dd is a leading Croatian private bank, which in April 1995 received long-term funds through a credit line from the EBRD to finance small and medium-sized private enterprises. Part of the loan, which totalled DM 56 million, was also used to purchase IT equipment.

Zagrebacka Banka – mortgage finance facility

In April 1998 the EBRD provided Zagrebacka Banka with a DM 200 million (€ 113.6 million) mortgage finance facility with an A/B loan structure to enable the bank to make long-term housing loans to private customers. The financing consists of a DM 100 million loan from the EBRD and a DM 100 million loan to be syndicated among participating banks. Under the A loan, the EBRD has already disbursed DM 60 million.

Agribusiness credit line – Agro-Obrtnicka Banka and Dalmatinska Banka

In July 1995, the EBRD provided credit lines of DM 10 and 20 million to Agro-Obrtnicka Banka (AOB) (loan now fully disbursed)

and Dalmatinska Banka (DB) respectively. The credit lines were designed to provide medium and long-term financing to small and medium-sized private enterprises and enterprises undergoing privatisation in the agribusiness sector. The projects included a technical cooperation programme to finance the services of a credit adviser with agribusiness experience to assist AOB and DB for one year in the screening, credit appraisal and monitoring of loans funded via the credit line. The adviser is provided training to AOB and DB staff in project finance and loan appraisal. In November 1996, when most of the existing credit line to DB had been successfully committed, it was extended by a further DM 20 million to finance investment projects that would fall below the Bank's minimum size criteria.

Tourism credit line

The EBRD has provided a sovereign-backed credit line of DM 50 million to the Croatian Bank for Reconstruction and Development to help revive the country's tourism sector. The proceeds are being used to repair and upgrade hotels and other tourist facilities along the coast and on the islands. The loan has now been fully disbursed.

Slavonska Banka – privatisation

In July 1998 the EBRD signed an agreement with the State Agency for Savings Deposit Insurance and Bank Rehabilitation for the purchase of a 17.5 per cent stake in Slavonska Banka Osijek (SBO), one of the largest regional banks in Croatia and the six largest bank in the country. A further 17.5 per cent was purchased by Kartner Landes und Hypothekenbank of Austria (Hypobanka). In addition, the EBRD and Hypobanka will provide a DM 20 million five-year convertible loan. The proceeds of the loan will be used by SBO to expand its medium to long-term investment programme for SMEs.

Slavonska Banka credit line

In May 2000, the EBRD agreed to provide a € 20 million five-year credit facility to Slavonska Banka for on-lending to SMEs. The project will provide medium-term financing which is at present limited in Croatia. The credit line will help to stimulate growth of private sector SMEs and will strengthen the institutional capacity of SBO.

Framework Facilities for SME financing

In May 1996 the EBRD approved a Framework Facility in the amount of DEM 60 million in favour of a number of Croatian

banks for on-lending to private small and medium-sized enterprises. The facility has allowed the selected banks to expand their lending operations and finance medium and long-term investment projects for their SME clients. The facility has had the additional benefits of fostering competition among private sector Croatian banks and helping them to develop their operations to meet international banking standards.

The first banks to benefit from the facility were Zagreb-based Trgovacka Banka in July 1996 and Alpe Jadran Banka in November 1996, both of which received credit lines of DEM 10 million. By the end of 1999 these funds had been fully disbursed. In October 1997 Medimurska Banka, based in Cakovec, was the next to receive funding of DEM 10 million, followed by Bjelovarska Banka, based in Bjelovar, which received DEM 15 million in November 1997.

In July 1999 an extension of the facility was approved, worth a further DEM 60 million. In December 1999 Trgovacka Banka received new funding from the new facility of DEM 7 million, and Bjelovarska Banka received a further DEM 15 million, following their successful participation in the original Framework Facility. During 2000, both Trgovacka Banka and Bjelovarska Banka were acquired by Erste Group of Austria, which also took over Cakovecka Banka. Erste Group is finalising the merger of these three banks, which have been renamed Erste & Steiermaerkische Bank. Two or three more banks are to be identified for financing under the extended Facility. Part of the loans will be used to finance mortgage lending.

Varazdinska Banka

Croatia's fourth-largest bank, Varazdinska Banka (VZB), is receiving a DM 20 million convertible loan from the EBRD for on-lending to private businesses seeking medium and long-term financing. The EBRD also took an equity stake of 10 per cent in VZB (EBRD sold its shares to Zagrebacka Banka in 2000). These investments will support privatisation in Croatia and will help VZB to provide loans to the industrial sector and to introduce new financial products.

Bank Austria Creditanstalt Croatia

In November 1996 the EBRD invested US\$ 4 million in Bank Austria Croatia d.d. (BAC), a fully operational subsidiary of Bank Austria. The EBRD's investment represents 20 per cent of the equity in the new bank. The establishment of BAC will broaden the scope of banking services available in Croatia, improving

competition in the local banking sector. BAC will provide corporate customer business and retail banking in both kuna and foreign currency. Its services include account maintenance, payment transactions, deposit taking, loans to corporate customers and private individuals, project and export financing, and credit card business and exchange offices in selected tourist areas.

The EBRD contributed € 4.5 million at the end of 1998 to increase BAC's capital. The equity investment will support the development of the bank's operations, allowing it to increase lending to SMEs. The bank will also expand its retail operations through mortgage lending, will establish a building society and open new branches. A third senior loan of € 10.0 million was made by EBRD to BAC in September 2000.

Hypo Banka Croatia

In February 1997 the EBRD signed an agreement to invest 18.5 million kuna in Hypo Banka Croatia (HBC), a recently established bank focusing on the Alpe-Adria region. The equity investment will help HBC to develop its activities and to meet increasing demand for high-quality customised banking services. HBC's main shareholder is its founder, Kärntner Landes- und Hypothekenbank AG of Austria. HBC will become a new local partner for the EBRD and will develop co-financing opportunities and other product lines, such as trade finance and mortgage financing lines.

Croatia Capital Partnership

The EBRD has invested US\$ 5 million in the first private venture capital equity fund in Croatia to invest in promising SMEs located in the country. Sponsors of the fund are Zagrebacka Banka, the largest Croatian private bank, and a group of British fund managers with relevant venture capital experience in central and eastern Europe. Activities started in December 1997.

Trade Facilitation Programme (TFP)

In January 1990, Medimurska Banka and Erste & Steiermaerkische Bank d.d. became the first Croatian banks to join the EBRD's Trade Facilitation Programme (TFP). EBRD launched the TFP to encourage international and intra-regional trade in central and eastern Europe and the CIS. Under the agreement, the EBRD will extend guarantees to the banks to cover advance payment bonds and letters of credit, while the amount of the guarantee will extend to up to 100 per cent of the face value of the underlying finance.

Austrija Osiguranje

An EBRD equity investment in Austrija Osiguranje will provide the capital required for the future expansion of the company. It will also contribute to greater competition in the insurance sector, to a widening of consumer choice through product innovation and will assist in the development of the local capital markets in the Bank's countries of operations.

Erste Mandatory Pension Fund management

EBRD financing will enable EPFMC to establish and manage a pension fund for mandatory pension insurance in Croatia.

Infrastructure

Air navigation system

In September 1994 the EBRD provided financing of US\$ 20 million for the replacement of civilian radar and other air navigation equipment destroyed or damaged during the recent war. The project is designed to reduce air traffic congestion and to improve safety. The project was prepared in close cooperation with a US\$ 128 million World Bank emergency reconstruction loan for the replacement of power transmission lines, transport equipment and water distribution systems. A further US\$ 4.2 million of financing was provided by the Croatian government.

Highway reconstruction project

In January 1995 a loan of DM 70.9 million was made to complete a major road between Zagreb and the Adriatic coast as well as to carry out road improvement works on high-priority roads. The project was designed to help improve cost recovery from road users by implementing a revised system of road-user charges, and to foster commercialisation of motorway operations. The project is part of a larger programme of support for the road sector, which is co-financed by the EBRD and the World Bank.

Railway reconstruction project

In December 1998 the EBRD provided a loan of € 32.7 million to support the modernisation and restructuring of the railways in Croatia. The loan will assist the railway company in formulating and implementing a commercialisation strategy and in financing its most urgent investment needs. The project was developed in conjunction with the World Bank.

Electricity network reconstruction

In February 1995 the EBRD provided a loan of DM 63 million to Hrvatska Elektroprivreda, the Croatian electricity utility, to finance the reconstruction of distribution networks throughout

the country. The Croatian utility provided a further DM 37 million towards the total cost. The project was designed to accelerate the reconstruction process and to develop economic activity by restoring power supply to war-damaged areas. It was also intended to improve the financial performance of the power industry, promote institutional reform and help power sector operations move towards a commercial environment.

Municipal and environmental infrastructure programme

The EBRD is among a number of sources of financing totalling DM 320 million for a major investment programme designed to extend and improve sewerage, waste-water treatment and water supply systems in several towns along the Adriatic coast. The investment programme also addresses the problem of severe pollution in Kastela Bay and the sea off Pula, and will restore the quality of bathing water, which in turn will boost the tourist trade. The EBRD is lending DM 105 million towards the project, alongside contributions from the World Bank, the Government of Croatia, the relevant Croatian municipalities and foreign donors. The loan is being extended to the Croatian Bank for Reconstruction and Development (HBOR), which will on-lend to local municipalities.

Rijeka sewerage services project

The main objectives of the project are to ensure the treatment of Rijeka's waste water in line with EU regulations. Other objectives are to implement a financial and operational performance improvement programme for VIK (Rijeka Water and Sewerage Company) and a municipal credit enhancement programme for the city of Rijeka.

Zagreb waste management programme

The EBRD provided a loan of € 45 million in November 1998 to finance improvements to the Jakusevac landfill and to support the commercialisation and privatisation of its waste management services. The landfill is the largest uncontrolled site in Europe. Improvements are essential to protect the city's water resources and will be carried out according to EU environmental standards.

Manufacturing

Pliva pharmaceuticals

In October 1995 the EBRD made its first direct corporate investment in Croatia, a loan of US\$ 20 million supplemented by a DM 60 million convertible debt investment to Pliva d.d., the largest pharmaceutical company in central and eastern

Europe. The loan will help Pliva to build a new plant to make a azithromycin and other antibiotics and will also support its planned capital expenditure programme. The convertible equity was designed to act as a catalyst for foreign investors to support Pliva's privatisation. Majority ownership of Pliva has since been transferred into private hands through a public share offering. The EBRD's convertible debt will provide funding for specific capital expenditure projects. This has been converted into equity, giving the EBRD an 11 per cent stake in Pliva's equity.

Pliva research facility

In September 2000, the EBRD approved a € 26.9 million loan to assist Pliva d.d. to construct a new state-of-the-art research institute in Zagreb for the development of new pharmaceutical substances. The project will enhance Pliva's ability to expand its generic pharmaceuticals portfolio and to develop a strong product line, a cornerstone of the company's business strategy for the period following the expiry of the company's azithromycin patent in the US. EBRD's support will strengthen Pliva's research and development capacity and help it to become an important regional player in the pharmaceutical industry.

Nasice Cement

In December 2000, EBRD signed a loan agreement of € 20 million with Nasicecement d.d, Croatia's second largest cement producer. Located in the town of Nasice in the Slavonia region east of Zagreb, Nasicecement is the only independent cement producer in Croatia. The loan will support plans to reduce the company's operating costs by switching from gas to coal as a principal source of fuel in the cement kiln. EBRD financing will also be used for potential acquisitions in related businesses in the region.

Telecommunications

VIP-NET GSM

The EBRD is a joint arranger of a € 120 million loan facility as well as a provider of a € 22.4 million parallel loan for VIP-NET GSM. This financing will enable the company to construct and operate the second national GSM network in Croatia. The loan facility will be used to fund capital expenditure, working capital requirements, and operating and financing costs.

Wholesale trade

Croatia wholesale markets project

A loan of US\$ 16.5 million has been extended by the EBRD to the Government of Croatia to assist in the development of an agricultural distribution network that will encourage free trade. The project involves the construction of wholesale markets in seven of the main population centres.

Contact names

Hans-Peter Achermann

Director for Croatia, Hungary and Slovenia
Banking Department
Rakoczi ut 42
1072 Budapest
Tel: +361 266 6000
Fax: +361 266 6003

Andrew Krapotkin

Head of the EBRD Office in Croatia
Petrinjska 59, 5th Floor
10000 Zagreb
Croatia
Tel: +385 1 4812 400
Fax: +385 1 4819 468

Signed projects as at 31 December 2000 (in € million), exchange rate as at 31 December 2000

Operation name	Sector	Total project cost	EBRD debt	EBRD equity	EBRD total
Private Sector					
Panonska pivovara	Agribusiness	62.1	16.9	0	16.9
Podravka restructuring	Agribusiness	149.1	0	25.5	
Agrokor	Agribusiness	160.0	70.0	0	70.0
Zagrebacka Banka dd - credit line and IT loan	Finance	27.4	22.2	0	22.2
Zagrebacka Banka - mortgage finance facility	Finance	102.3	51.1	0	51.1
Agribusiness credit line - Dalmatinska Banka I	Finance	10.2	10.2	0	10.2

Continued

Signed projects as at 31 December 2000 (in € million), exchange rate as at 31 December 2000 (continued)

Operation name	Sector	Total project cost	EBRD debt	EBRD equity	EBRD total
Private Sector					
Dalmatinska Banka credit line extension	Finance	7.5	7.5	0	7.5
Agribusiness credit line - Agro-Obrtnicka Banka	Finance	5.1	5.1	0	5.1
Tourism credit line	Finance	25.6	25.6	0	25.6
Slavonska Banka d.d. Osijek	Finance	19.7	5.1	9.5	14.6
Slavonska credit line	Finance	20.0	20.0	0	20.0
Framework for SME financing:					
Trgovacka Banka	Finance	5.0	5.0	0	5.0
Trgovacka Banka - second loan		3.6	3.6	0	3.6
Bjelovarska Banka		7.7	7.7	0	7.7
Bjelovarska Banka - second loan		8.0	7.4	0	7.4
Alpe Jadran Banka		5.1	5.1	0	5.1
Medimurska Banka		5.1	5.1	0	5.1
Bank Austria Creditanstalt Croatia d.d	Finance	13.3	0	2.9	2.9
Bank Austria Creditanstalt Croatia (capital increase)	Finance	21.4	0	4.6	4.6
Bank Austria Creditanstalt Croatia	Finance	10.0	10.0	0	10.0
Hypo Banka Croatia	Finance	10.0	0	2.9	2.9
Varazdinska Banka	Finance	11.8	10.2	1.7	11.9
Croatia Capital Partnership Ltd.	Finance	30.1	0	5.4	5.4
Trade Facilitation Programme: Medimurska Banka		0.6	0.8	0	0.8
Erste & Steiermaerkische Bank DD	Finance	3.0		0	0
Austria Osiguranje	Insurance	1.3	0	1.3	1.3
Nasice Cement	Manufacturing	25.0	20.0	0	20.0
Erste Mandatory Pension Fund	Pension fund	2.9	0	1.3	1.3
Pliva pharmaceuticals	Pharmaceuticals	193.4	21.5	32.3	53.8
Pliva research facility	Pharmaceuticals	121.6	0	0	26.9
VIP-NET GSM	Telecommunications	221.6	22.4	0	22.4
Rijeka sewerage services project	Water and sewage	8.1	7.5	0	7.5
Sub-total		1297.6	386.9	87.4	474.3
Public sector					
Electricity network reconstruction	Power and energy	49.0	32.2	0	32.2
Air navigation system	Transportation	26.0	21.5	0	21.5
Highway reconstruction project	Transportation	246.7	36.2	0	36.2
Railways modernisation project	Transportation	251.5	37.6	0	37.6
Zagreb waste management programme	Waste management	90.6	48.8	0	48.8
Municipal environmental investment programme	Water and sewage	158.9	50.	0	50.3
Croatia wholesale market project	Wholesale trade	41.1	12.5	0	12.5
Sub-total		863.8	239.1	0	239.1
Total		2161.4	626.0	87.4	713.4
of which private					66.5%
of which public					33.5%